

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

**FOR
ANNUITANTS' HEALTHCARE COVERAGE FUND**

December 18, 2006

~~This Policy is effective immediately upon adoption.~~

I. PURPOSE

~~This document sets forth the investment policy ("the Policy") for the Annuitants' Healthcare Coverage Fund ("the Fund"). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the California Public Employees' Retirement System ("the System") take prudent and careful action while managing the Fund. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with this Fund.~~

II. STRATEGIC OBJECTIVE

~~Ensure that the Fund has liquidity adequate to meet its projected cash flow needs, while at the same time keeping its cash balances fully invested, so as to achieve the highest total rate of return possible, consistent with a prudent level of risk.~~

~~The Fund shall be managed to accomplish the following:~~

- ~~1. Provide sufficient liquidity to meet all cash needs;~~
- ~~2. Enhance the Fund's total rate of return by ensuring that all cash balances are fully invested at all times until they are needed by the Fund;~~
- ~~3. Maintain sufficient diversification to avoid large losses and preserve capital; and~~
- ~~4. Consider solely the interest of the Fund's participants and their beneficiaries in accordance with California State Law.~~

III. RESPONSIBILITIES AND DELEGATIONS

- ~~A. The **System's Investment Committee** ("the Investment Committee") is responsible for approving and amending the Policy. The Investment Committee delegates the responsibility for administering the Fund to the Investment Staff through the Delegation of Authority (Delegation Nos. 89-13 and 95-50).~~

B. ~~The System's Investment Staff ("the Staff") is responsible for:~~

~~1. Implementing and adhering to the Policy;~~

~~2. Reporting internally to senior management concerning the implementation of this Policy. This report shall be prepared at least monthly to include, but is not limited to, the current market value and allocations by asset class compared to the asset allocation targets.~~

C. ~~The General Pension Consultant ("the Consultant") is responsible for monitoring, evaluating, and reporting to the Investment Committee, at least quarterly, the Fund's performance relative to the benchmark and Policy guidelines.~~

IV. PERFORMANCE OBJECTIVE

~~The Fund, at a minimum, shall generate a long-term total return that meets or exceeds the Fund's actuarial interest rate assumption.~~

V. INVESTMENT APPROACHES AND PARAMETERS

A. ~~Philosophy and Approach~~

~~The Fund shall be managed in accordance with the CalPERS Statement of Investment Policy for Asset Allocation Strategy approved by the Investment Committee and in a manner consistent with each individual Board-Approved Policy governing each asset class. Such policies shall specify the method and parameters for implementation and provide for the ongoing monitoring of that asset class.~~

B. ~~Fund Structure/Parameters~~

~~The System shall manage the Fund in accordance with the following strategic asset allocation. In order to increase the investment opportunities, the Fund shall hold an interest in pooled funds managed by the System. The System's Master Custodian shall employ a unitized fund structure to maintain separate and distinct historical records and to produce individual net asset values (NAV's) for each asset class in the Fund.~~

The Annuitants' Healthcare Coverage Fund
Strategic Asset Allocation

Asset Class	Policy Allocation	Policy Range
U. S. Equity	35%	30% - 40%
Int'l Equity	29%	24% - 34%
REITs	10%	7% - 13%
U. S. Fixed Income	20%	17% - 23%
High Yield	6%	3% - 9%
Cash Equivalent	0%	0%

Expected Return: 7.75%

Expected Risk: 11.91%

Return/Risk: 0.65

C. Restrictions, Prohibitions and Permissible Securities

Restrictions, Prohibitions and Permissible Securities of the Fund are defined in the Board Approved Policy governing each asset class, as follows:

U. S. Equity: Pooled S&P 500 Equity Index Fund — Internally Managed

Int'l Equity: Equity Index Funds — Internally Managed

REITs: Enhanced CORE Index Public Real Estate Equity Securities — Internally Managed

U. S. Fixed Income and High Yield: Dollar-Denominated Fixed Income Program

Cash: Dollar-Denominated Short-Term Program — Internally Managed

VI. ~~BENCHMARK~~

~~The benchmark for each of the Fund's asset class investments is defined in the Board Approved Policy governing each asset class. The benchmark for the Fund as a whole shall be a weighted asset class benchmark based on asset class index returns weighted by asset class policy targets.~~

VII. ~~GENERAL~~

~~Investors, managers, consultants, or other participants selected by the System shall make all calculations and computations on a market value basis, as recorded by the System's custodian.~~

VIII. ~~GLOSSARY OF TERMS~~

~~Definitions of key words used in this policy are located in the Miscellaneous Investment Policies Glossary of Terms which is included in the System's Master Glossary of Terms.~~

Annuitants' Healthcare Coverage Fund

Approved by the Policy Subcommittee: ~~December 15, 2006~~

Adopted by the Investment Committee: ~~December 18, 2006~~

Asset Class Glossary: Other (Non-PERF) Investment Portfolios
Policy: Annuitants' Healthcare Coverage Fund
August 18, 2008

Net Asset Value – NAV

The Net Asset Value or NAV is a term used to describe the value of an entity's assets less the value of its liabilities.

Pooled Funds

Funds from many individual investors that are aggregated for the purposes of investment, as in the case of a mutual or pension fund. Investors in pooled fund investments benefit from economies of scale, which allow for lower trading costs per dollar of investment, diversification and professional money management.

Unitized Fund Structure

Unitized Fund Structure allows multiple participants to contribute to a pool of assets while maintaining historical records and producing individual Net Asset Values (NAVs) for each participant. Each participant's share in the portfolio is separately accounted for using a system that accounts for each class of shares' proportional entitlement to the portfolio's Total Net Assets. The system maintains all of the funds' holdings at the fund level, and maintains the fund prices at the class level.